



ELSEVIER

Contents lists available at ScienceDirect
Global Finance Journal

journal homepage: www.elsevier.com/locate/gfj

Hostility and deal completion likelihood in international acquisitions: The moderating effect of information leakage

Thanh Ngo^a, Jurica Susnjara^{b,*}

^a East Carolina University, Greenville, NC, USA

^b Texas State University, San Marcos, TX, USA

ARTICLE INFO

Article history:

Received 17 January 2015

Received in revised form 29 August 2015

Accepted 6 April 2016

Available online xxx

JEL classification:

G15

G34

Keywords:

Mergers

Acquisitions

International

Hostility

Completion

Run-up

ABSTRACT

Examining a comprehensive sample of international acquisitions over the 1997–2013 period, we document that deal hostility negatively impacts the likelihood of deal completion, reinforcing previous research on domestic merger and acquisition activity in the United States. The negative relationship, however, is stronger in the presence of substantial information leakage about the deal. Substantial information leakage about the impending deal imposes an additional tangible obstacle that impedes the negotiations in hostile deals. Our results highlight information leakage prevention as being crucial in ensuring merger negotiation success.

© 2016 Published by Elsevier Inc.

1. Introduction

Previous research has shown that there is informed trading in financial markets. These studies include the following: Schwert (1996), Meulbroek (1992), Cornell and Sirri (1992), Chakravarty and McConnell (1997, 1999), and Fische and Robe (2004) in the US; King (2009) in Canada; Del Brio and Perote (2007) in Spain; Betzer and Theissen (2009) in Germany; and Jaggi and Tsui (2007) in Hong Kong. To the best of our knowledge, previous research does not explore the potential moderating effect of informed trading on some long-standing relationships in the mergers and acquisitions literature. Of particular interest to this

* Corresponding author at: Texas State University, 601 University Dr, San Marcos, TX 78666, USA. Tel.: +1 512 245 2547.

E-mail addresses: ngot@ecu.edu (T. Ngo), jsusnjar@kean.edu (J. Susnjara)

<http://dx.doi.org/10.1016/j.gfj.2016.04.002>

1044-0283/© 2016 Published by Elsevier Inc.

Please cite this article as: Ngo, T., & Susnjara, J., Hostility and deal completion likelihood in international acquisitions: The mode..., *Global Finance Journal* (2016), <http://dx.doi.org/10.1016/j.gfj.2016.04.002>

study is the moderating effect of informed trading on the relationship between deal hostility and the likelihood of deal completion in international mergers and acquisitions.

While the evidence is not completely conclusive, most studies conducted in the United States (Hunter & Jagtiani, 2003; Schwert, 2000) indicate that hostility of the deal leads to less likely deal completion. Insofar as the attitude of the target management is important to the success of the negotiations, it is to be expected that the friendliness of the negotiations should result in more likely deal completion. It is possible that this observed effect of deal attitude on the likelihood of completion is moderated by other factors. For example, the influence of deal hostility on the likelihood of completion may be magnified if there is a tangible effect of that hostility present. One such tangible effect of hostility may involve target insiders leaking information of the deal. This may be done

- to attract another (white knight) bidder;
- to increase the stock price of the target and make the deal more expensive, should bidders engage in what Schwert (1996) calls “markup pricing”;
- to profit from the associated target stock price increase; or
- to some combination of the above.

Our study contributes to the existing literature in 2 ways. First, different from prior studies that focus only on domestic US mergers and acquisitions, we examine the impact of deal hostility on deal completion probability for a sample of international mergers and acquisitions from 1997 to 2013. Our findings help reinforce previously documented evidence that hostility negatively impacts deal completion likelihood. Second, we make a novel contribution to the existing literature on the topic by documenting evidence of the moderating effect of information leakage on the relationship between deal hostility and completion.

We find that the information leakage and the level of informed trading also have an effect on deal completion; greater degree of information leakage (proxied by target stock price run-up) leads to less likely deal completion. In the central finding of this study, we find that the previously established relationship between deal hostility and completion significantly weakens with lower levels of target run-up and disappears for the subsample of targets with low-positive run-up.

Our results offer relevant inferences for takeover market participants. In particular, our results should be of importance to prospective target shareholders. Previous research (Alexandridis, Fuller, Terhaar, & Travlos, 2013; Huang & Walkling, 1987) establishes that targets of acquisitions receive substantial premiums on top of the pre-acquisition stand-alone price. It has also been established (Easterbrook & Jarrell, 1984; Pound, 1986; Ruback, 1988) that targets of unsuccessful bids experience negative long-run abnormal returns (relative to pre-announcement values), suggesting that the costs to targets of unsuccessful bids are both statistically and economically significant; see the post-2008 performance of Yahoo after a failed Microsoft bid for a more recent example. If it is the moderating effect of target stock price run-up that makes bids unsuccessful (rather than the hostile attitude of the target as a main effect), and insofar as target shareholders are motivated to see acquisition offers succeed, it is important to target shareholders to limit information leakage, even if this results in lower premiums.

2. Hypotheses

2.1. Deal hostility effect on deal completion

Hostile deals should result in less likely deal completion. Previous research (Hunter & Jagtiani, 2003; Schwert, 2000; Yan, 2015) has mostly focused on US and not been completely conclusive. We hope to shed further light on this and expand the analysis to international targets. We create a dummy variable (1 if a deal is marked hostile by SDC or if Lexis-Nexis reports target's hostility toward the initial offer, 0 otherwise) in order to test the effect of hostile takeovers. We also create a dummy variable (1 if a deal is marked completed by SDC, 0 otherwise) for deal completion, our dependent variable of interest.

2.2. Information leakage effect on deal completion

We posit that, all else equal, information leakage should result in lower deal completion likelihood. The presence of information leakage prior to merger announcements has been studied previously; Schwert

Download English Version:

<https://daneshyari.com/en/article/5075307>

Download Persian Version:

<https://daneshyari.com/article/5075307>

[Daneshyari.com](https://daneshyari.com)